

NYE-DT 13

Apache Corp. (APA)

INCREASE TARGET PRICE

Rating	NEUTRAL
Price (06-Sep-16, US\$)	51.67
Target price (US\$)	(from 63.00) 67.00
52-week price range	58.29 - 34.38
Market cap (US\$ m)	20,428.44
Enterprise value (US\$ m)	28,077.07

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

*Target price is for 12 months.

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Unveils New, Large Wet Gas Play in Texas, Drills Better Wells in Midland

■ **Bottom Line:** Today's presentation defines what APA will be delivering for shareholders over the next decade (or more). Firstly, APA unveiled improved recent wells in their 193k core Midland acreage, with recent wells tracking around 1.2MB EUR (with some above), helped by completions and landing zone optimization. APA's core Midland drilling inventory is 700 wells at \$50/bbl and up to 2850 wells at \$60/bbl with tighter spacing (versus our 1400 drilling program through 2025). Secondly, APA outlined the Alpine High wet gas play (and oil potential) in Texas. With 2000-3000 locations, this play could support a 6 rig program for 20 years. The short lateral type curves outlined by APA (particularly in the higher pressure zone) are competitive with the core of many shale plays at \$3/mmbtu gas. There is potential to improve the well economics as completions are optimized and with longer laterals. Inside, we reprise some of the key slides. The play will not be ready for primetime until 2018 given the delineation and need to build out infrastructure. However, a wet gas Marcellus was not expected to be hidden inside APA. There is further upside from the oil potential in the north of the acreage from the Wolfcamp and Bone Springs where a HZ well flowed 854 bo/d oil and a vertical well flowed 700 bo/d.

■ **Raising Target Price \$4/sh:** Clearly the addition of the Alpine High resource is large and extends APA's drilling inventory. In our TP we drill through 2025 for the larger caps. Based on the availability of cashflow, only the lower pressure zone economics, (there are higher pressure pockets to the North), and with no uplift for oil, our TP increases by \$4/sh. Our blue sky upside based on Midland/Delaware EUR improvement is \$72/sh. There is further upward bias for the Alpine High over time.

Share price performance



On 06-Sep-2016 the S&P 500 INDEX closed at 2186.48
Daily Sep08, 2015 - Sep06, 2016, 09/08/15 = US\$43.24

Quarterly EPS	Q1	Q2	Q3	Q4
2015A	-0.37	0.22	-0.06	-0.06
2016E	-0.40	-0.26	0.00	-0.15
2017E	-0.19	0.21	0.52	0.61

Financial and valuation metrics

Year	12/15A	12/16E	12/17E	12/18E
Revenue (US\$ m)	6,554.0	5,089.9	6,359.4	8,018.3
EBIDAX (US\$ m)	8,915.0	2,944.4	3,719.9	4,784.5
EPS (CS adj.) (US\$)	-0.27	-0.82	1.15	2.96
Prev. EPS (US\$)	-	-	-	-
ROGIC (%)	-90.4	-3.2	5.3	9.0
P/E (x)	-191.4	-63.3	44.9	17.5
P/E rel. (%)	-907.8	-309.4	241.2	102.8
OCFPS (US\$)	7.50	5.79	8.25	11.17
P/OCF (x)	5.9	8.9	6.3	4.6
Qtrly ent. val./ tot. EBIDAX	3.1	9.4	7.5	5.8
Net debt (US\$ m)	7,310	7,649	7,938	8,033
Dividend (current, US\$)	1.0	Dividend yield (%)		1.9
Net debt (current, US\$)	7,496.9	Net debt/tot eq (Next Qtr., %)		85.9
BV/share (Next Qtr., US\$)	18.9	GIC (12/16E, US\$ m)		16,260.4
EV qtr/GIC (x)	1.9	Current WACC (%)		-
Free float (%)	91.7	Number of shares (m)		395.36

Source: Company data, Thomson Reuters, Credit Suisse estimates

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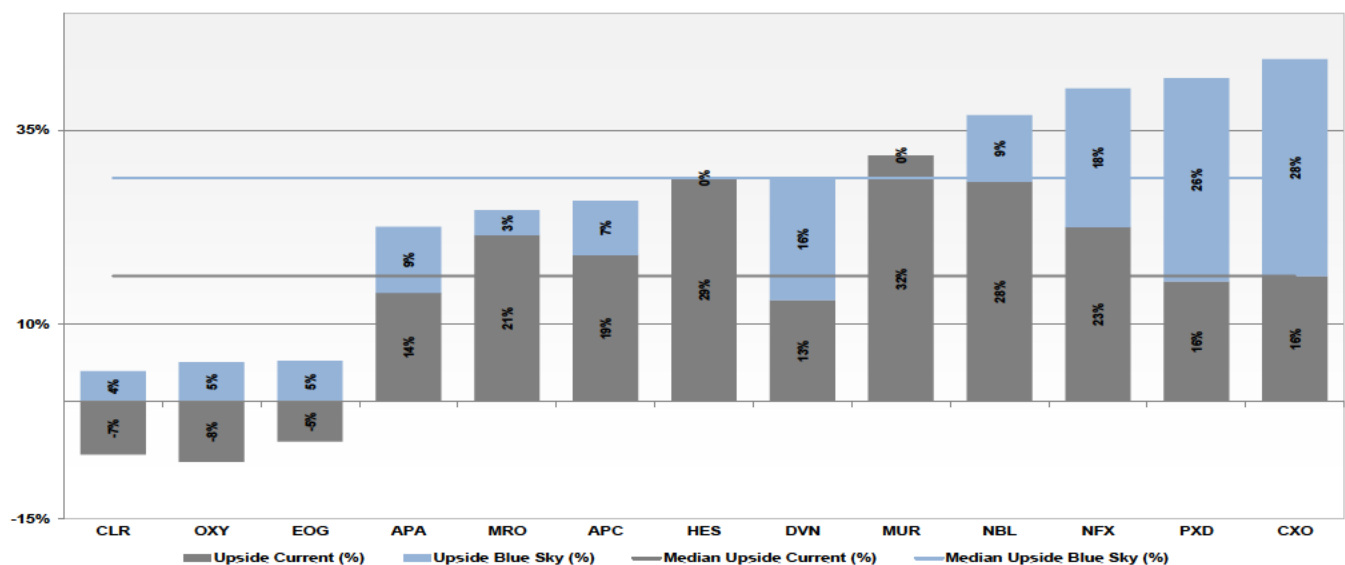
Midland Performing, Unveiling a New Play

APA's presentation dealt with the inventory concerns overhanging the stock. We now have a better idea of the path of APA's rig activity over the next decade. Drill out the core Midland and Delaware, and the new stealth play in the Alpine High. Some key bullets:

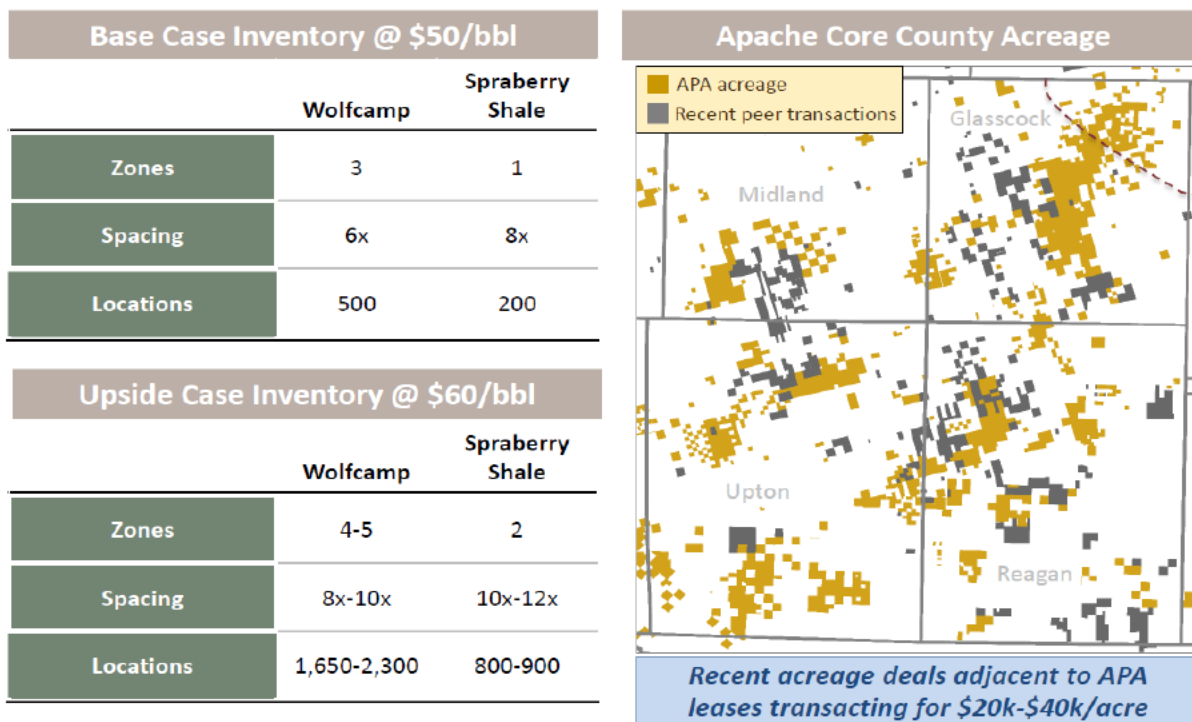
- APA's Midland wells are performing due to improved completions and landing zone. The 1,200 MBOE EUR of recent wells compares with our 950 MBOE assumption.
- The inventory in the Midland at \$60/bbl and with downspacing is above our 1,400 location count. The key as usual will be the interplay between downspacing, sweetspots and EUR's.
- In the Alpine High, APA has unveiled 2000-3000 locations. These Alpine High locations are competitive (depending on the natural gas price) with the core of other liquid rich zones, particularly the high pressure zone. A key question is how large the overpressured section is. We have only modeled the lower pressure region for our economics. There are 5 sources of potential upside to the \$4/sh we add to our TP today.
 - The higher pressure zone in the North of the wet gas Barnett/Woodford has much better EUR's and hence economics
 - There is oil potential also in the North, in the Bone Spring and Wolfcamp.
 - The wells reported thus far are not optimized for completion and pad drilling could lower costs.
 - The contiguous acreage and resource properties lend themselves to longer laterals.
 - Accelerated rig activity over and above our plans.
- Beyond this, APA will be in a position of improved inventory strength to think about disposals elsewhere as the commodity market recovers.

So let's turn to the key charts:

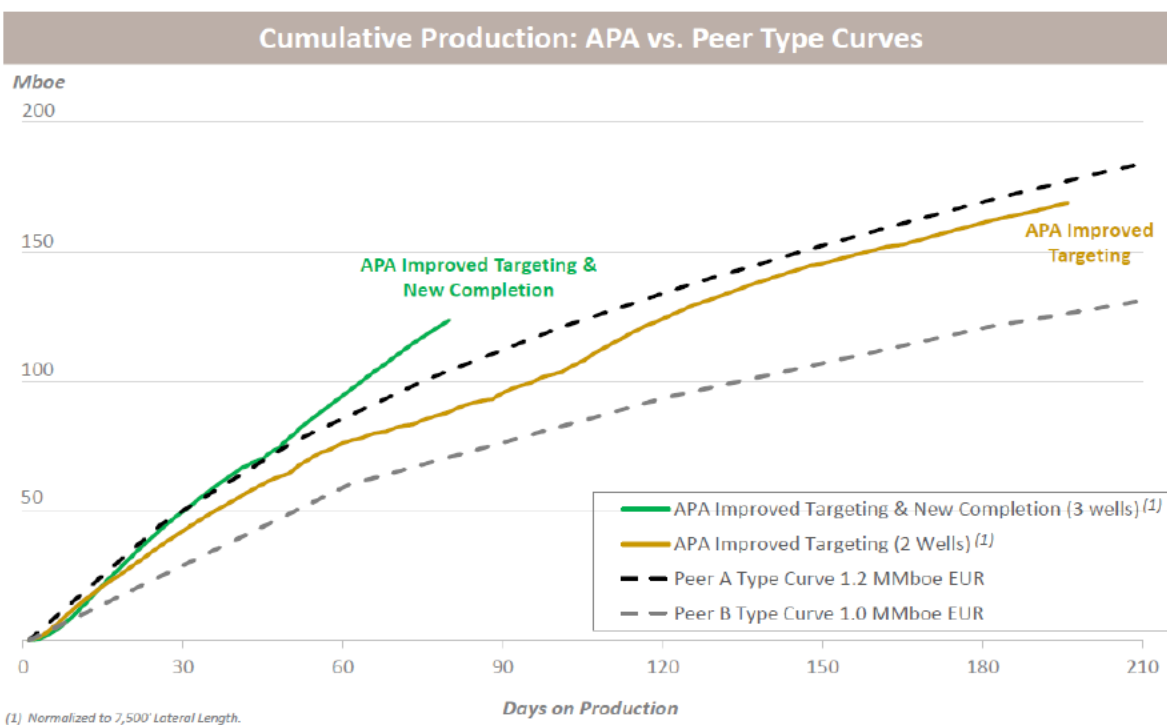
Figure 1: Upside to TP (priced after the open). Blue Sky comes from Permian/STACK. There is upside from Alpine High Also.



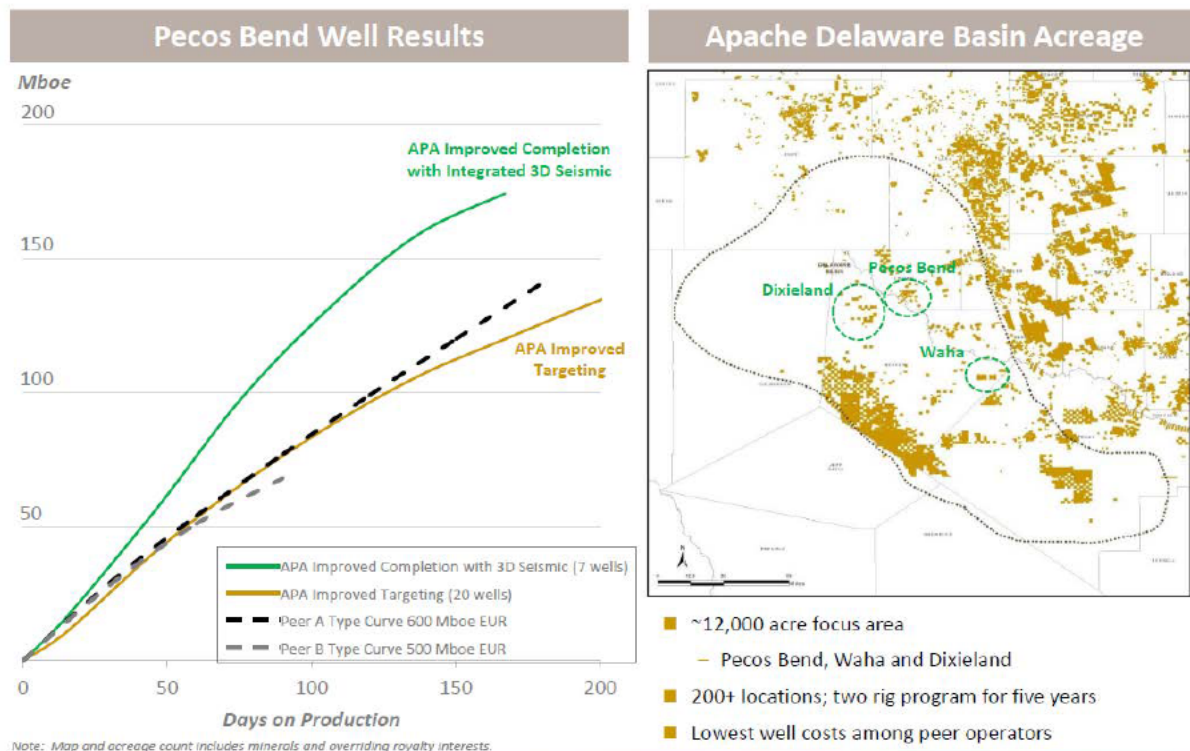
Source: Credit Suisse estimates (APA : Upside is calculated based on opening price)

Figure 2: Apache Outlined An Inventory in The Midland That is Consistent With Our Model

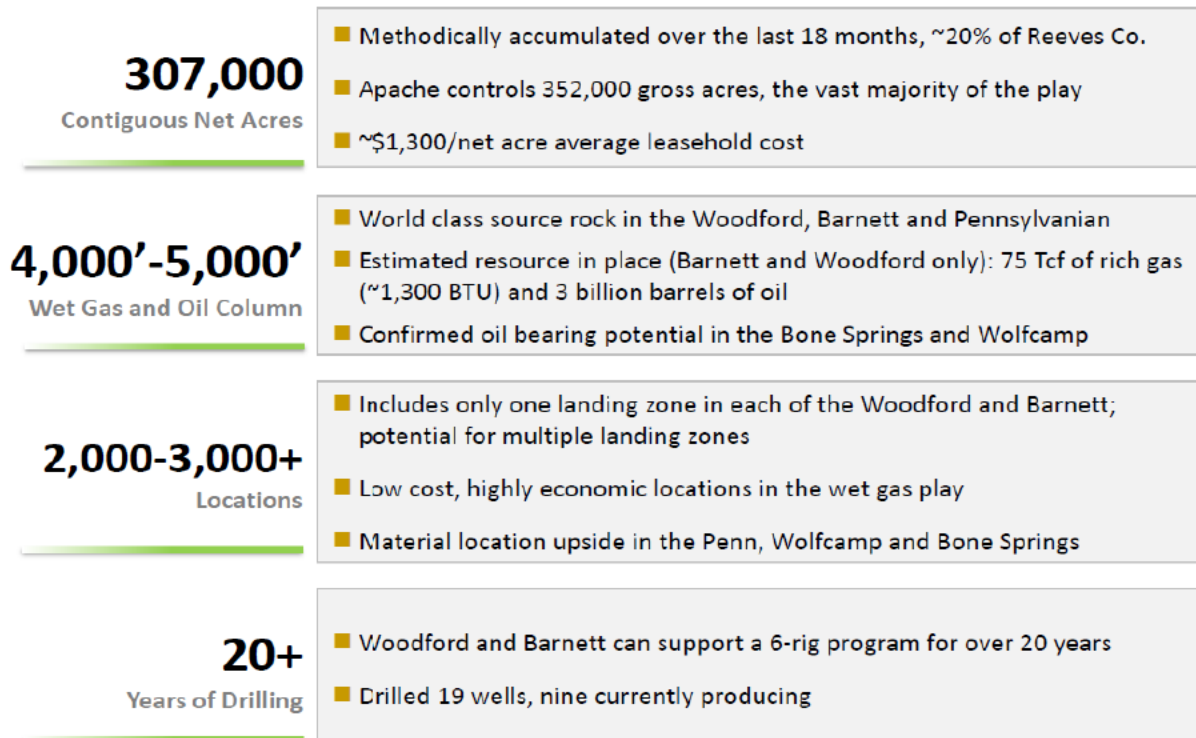
Source: APA's Sep'16 Conference Presentation

Figure 3: Recent Midland Wells Are Exceeding the 950 MBOE EUR in Our Model

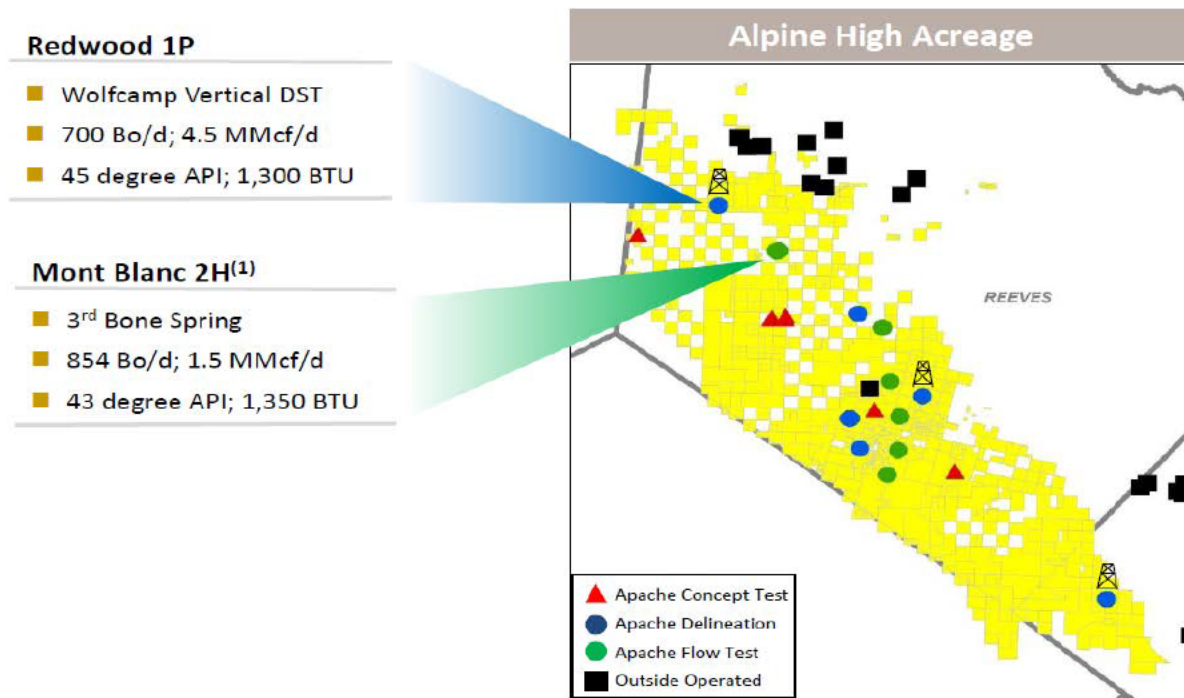
Source: APA's Sep'16 Conference Presentation

Figure 4: Pecos Bend Results Continue to Be Exceptional (Though A Small Footprint)

Source: APA's Sep'16 Conference Presentation

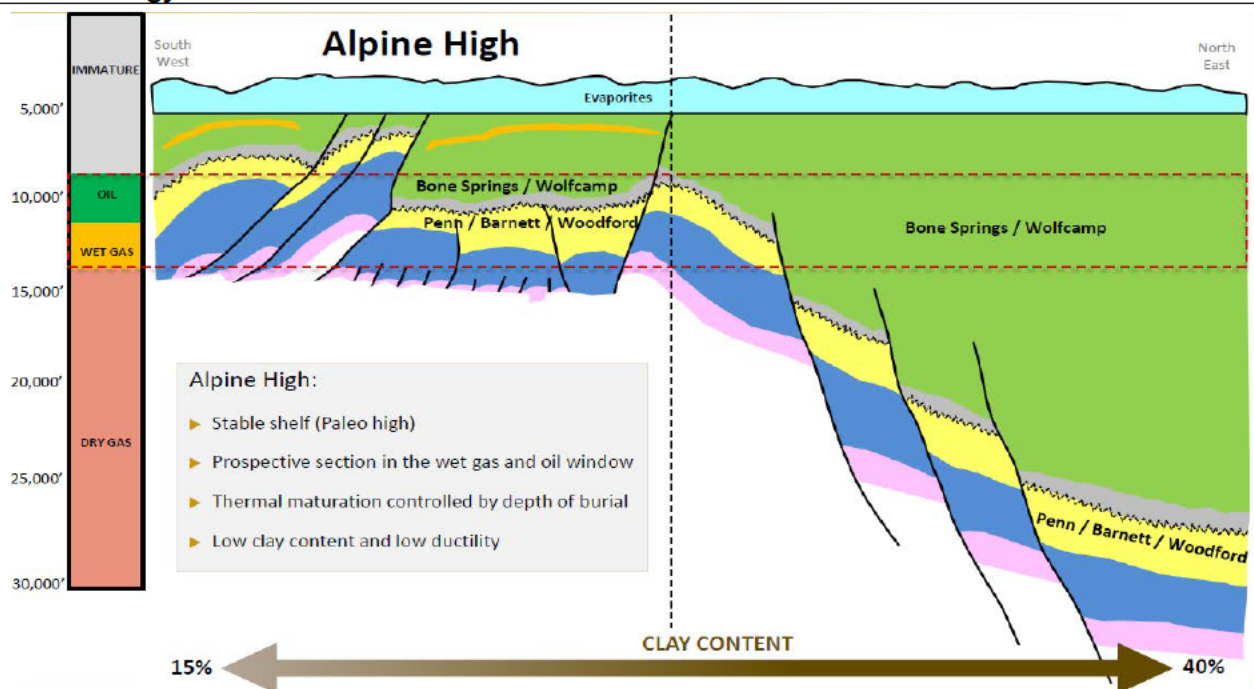
Figure 5: APA Unveils A New Play : Alpine High

Source: APA's Sep'16 Conference Presentation

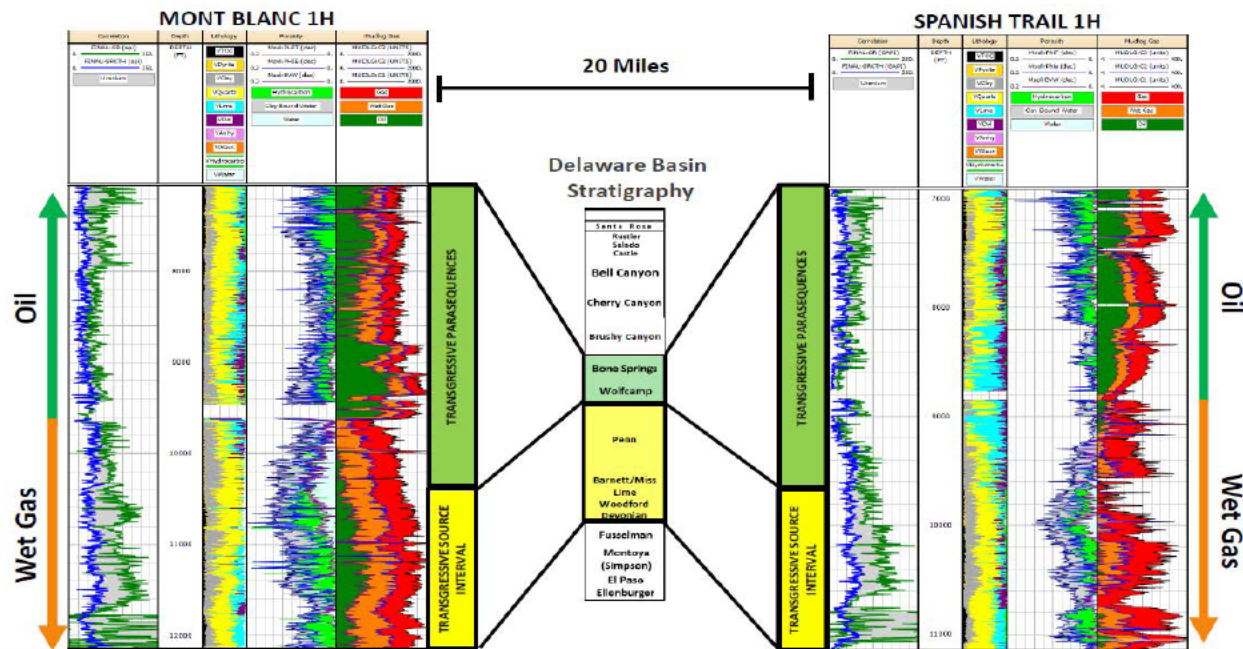
Figure 6: Alpine High Acreage

(1) Production represents 24 hour IP rate.

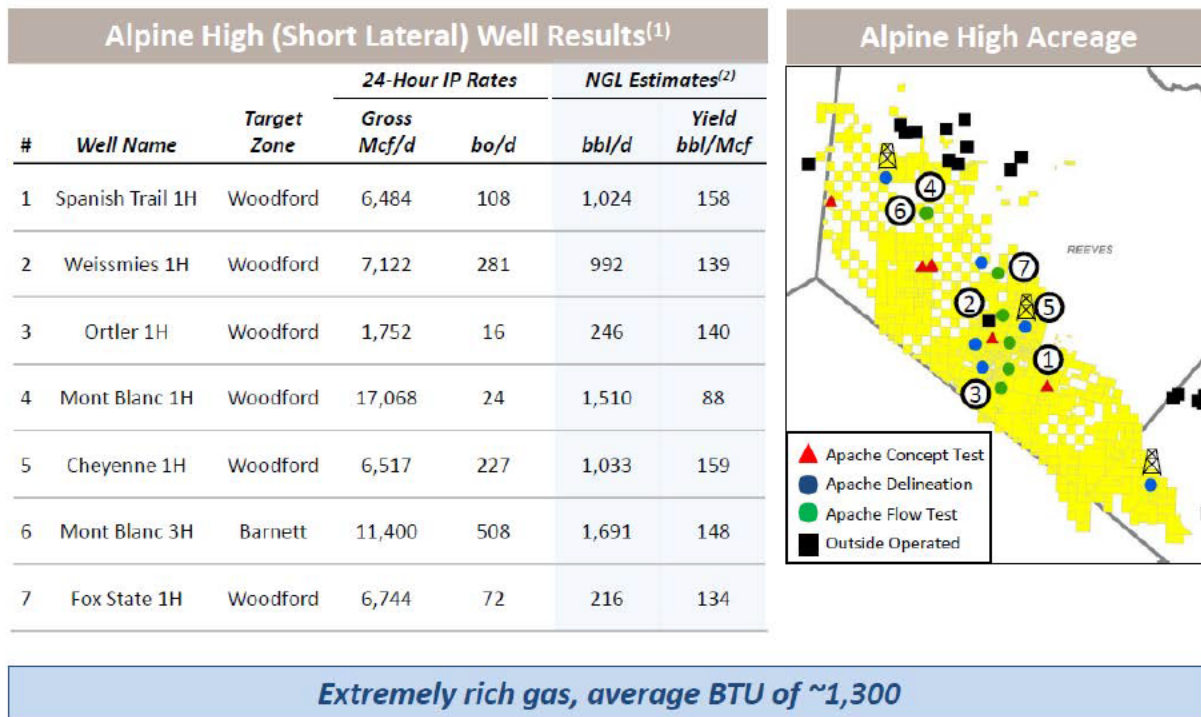
Source: APA's Sep'16 Conference Presentation

Figure 7: Geology of Southern Delaware

Source: APA's Sep'16 Conference Presentation

Figure 8: Stacked Pay Potential Across the Barnett, Woodford, Bone Spring and Wolfcamp

Source: APA's Sep'16 Conference Presentation

Figure 9: Well Results: We note that the strongest pressures are in the North of the play. This is also where the oilier tests surprised to the positive.⁽¹⁾ Production rates constrained by infrastructure.⁽²⁾ Hypothetical yields predicted upon future recovery plan.

Source: APA's Sep'16 Conference Presentation

Figure 10: Alpine High Economics – The Lower Pressure Zone Has Decent Returns As Gas Prices Improve, The Higher Pressure Wells Are Exceptional

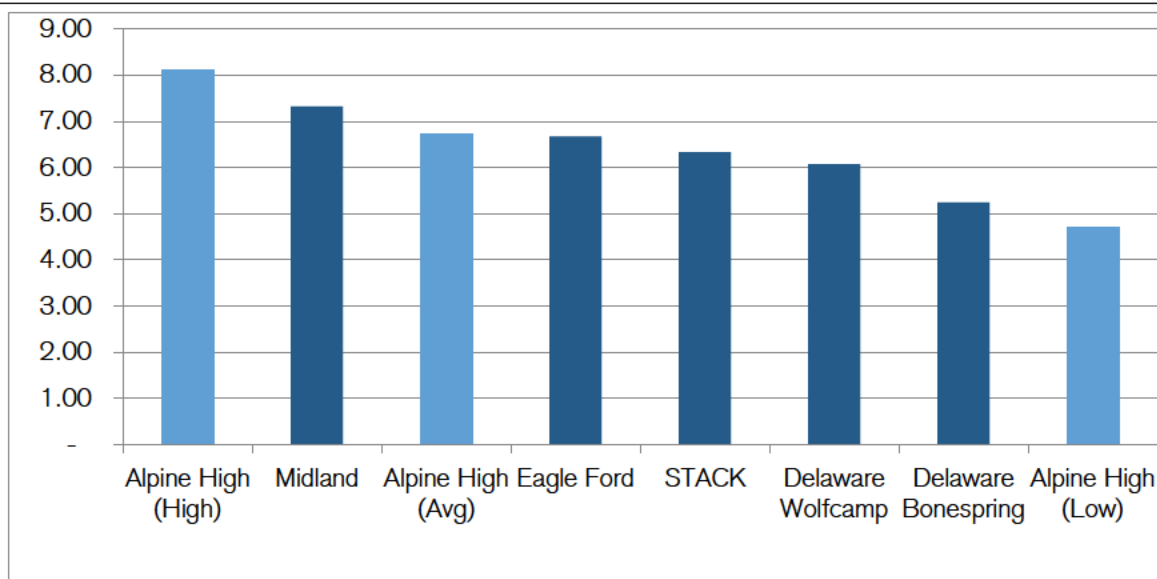
Single Well (Short Lateral) Assumptions			
	Low	-	High
D,C&E Costs (\$ MM)			
To Date	\$5.5	-	\$8.0
Expected in Development	\$4.0	-	\$6.0
EUR / Well (Mboe)	1,100		2,700
Oil (Mbbls)	120	-	320
NGL (Mbbls)	320	-	750
Gas (MMcf)	4,000	-	10,000
Fully Burdened Economics @ \$50 WTI / \$3.00 Hhub			
NPV-10 (\$ MM)	\$4	-	\$20
BTAX RoR	55%	-	>400%
Breakeven Gas Price (\$/Mcf)	\$0.40	-	<\$0.10
Fully Burdened Economics @ \$40 WTI / \$2.50 Hhub			
NPV-10 (\$ MM)	\$2	-	\$15
BTAX RoR	30%	-	>250%
Breakeven Gas Price (\$/Mcf)	\$0.60	-	<\$0.10

2,000-3,000+

Woodford and Barnett locations only

Source: APA's Sep'16 Conference Presentation

Figure 11: A Quick Proxy To Compare Plays: The Ratio of Revenue (\$60/bbl oil, \$3/mmbtu gas) versus D&C Cost.



Source: Credit Suisse estimates, APA Sep'16 Company Presentation

Companies Mentioned (Price as of 06-Sep-2016)

Anadarko Petroleum Corp. (APC.N, \$57.19)
Apache Corp. (APA.N, \$51.67, NEUTRAL, TP \$67.0)
Concho Resources, Inc. (CXO.N, \$132.53)
Continental Resources, Inc. (CLR.N, \$50.41)
Devon Energy Corp. (DVN.N, \$44.21)
EOG Resources (EOG.N, \$94.83)
Hess Corporation (HES.N, \$51.23)
Marathon Oil Corp. (MRO.N, \$15.64)
Murphy Oil Corp. (MUR.N, \$27.33)
Newfield Exploration (NFX.N, \$44.89)
Noble Energy (NBL.N, \$35.06)
Occidental Petroleum (OXY.N, \$78.0)
Pioneer Natural Resources (PXD.N, \$183.5)

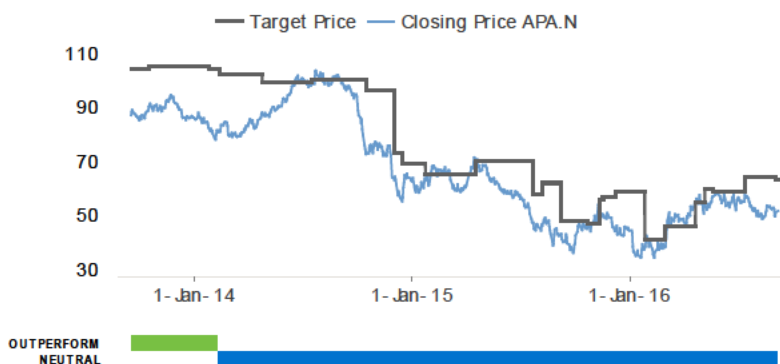
Disclosure Appendix

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I, Edward Westlake, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Apache Corp. (APA.N)

APA.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
16-Sep-13	87.00	104.00	O
17-Oct-13	90.57	105.00	
24-Jan-14	82.42	104.00	
11-Feb-14	81.38	102.00	N
24-Apr-14	87.96	99.00	
17-Jul-14	98.91	100.00	
15-Oct-14	72.67	96.00	
02-Dec-14	63.11	73.00	
15-Dec-14	55.20	69.00	
23-Jan-15	62.88	65.00	
17-Apr-15	70.38	70.00	
22-Jul-15	47.32	58.00	*
07-Aug-15	46.11	62.00	
08-Sep-15	43.24	48.00	
22-Oct-15	45.97	47.00	
12-Nov-15	48.90	56.00	
17-Nov-15	49.71	57.00	
09-Dec-15	44.95	59.00	
26-Jan-16	38.03	41.00	
01-Mar-16	38.62	46.00	
20-Apr-16	54.68	55.00	
06-May-16	53.84	60.00	
20-May-16	57.11	59.00	
13-Jul-16	56.54	64.00	
01-Sep-16	49.79	63.00	



* Asterisk signifies initiation or assumption of coverage.

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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An

Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

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Neutral/Hold*	28%	(25% banking clients)
Underperform/Sell*	17%	(53% banking clients)
Restricted	0%	

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Target Price and Rating

Valuation Methodology and Risks: (12 months) for Apache Corp. (APA.N)

Method: Our 12-month target price of \$67 per share for Apache Corp. assumes the stock trades at parity with our net asset value. Our NEUTRAL rating is a function of total shareholder return over the next twelve months and the relative risk/reward versus our coverage universe.

Risk: We see several risks to APA achieving our \$67 TP and our Neutral rating. APA has nearly 15% of its production coming from Egypt, which is going through a revolution. Political, social and economic conditions in the country could significantly worsen, and may lead to a reduction in the company's production, profits and stock price. In general, oil and gas companies are subject to changes in global commodity supply/demand, as well as geopolitical related issues that could adversely affect the company's ability to achieve our TP and could potentially lower our Rating.

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7 September 2016

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This research report is authored by:

Credit Suisse Securities (USA) LLC.....Edward Westlake ; Chandra Meenaga ; Ben Combes, CFA

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